



# Moody's Corporation (MCO)

Updated May 2<sup>nd</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$313	<b>5 Year CAGR Estimate:</b>	8.5%	<b>Market Cap:</b>	\$57 B
<b>Fair Value Price:</b>	\$244	<b>5 Year Growth Estimate:</b>	13.0%	<b>Ex-Dividend Date:</b>	05/28/23 <sup>1</sup>
<b>% Fair Value:</b>	128%	<b>5 Year Valuation Multiple Estimate:</b>	-4.9%	<b>Dividend Payment Date:</b>	06/09/23
<b>Dividend Yield:</b>	1.0%	<b>5 Year Price Target</b>	\$449	<b>Years Of Dividend Growth:</b>	14
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

Moody's was created back in 1909, becoming the first company to analyze securities and rate their investment quality for investors on a large scale. Moody's began with its *Analyses of Railroad Investments* in 1909 and has blossomed into the company we know today, with about \$5.9 billion in annual revenue and a market capitalization of about \$57 billion. Moody's is still one of the largest players in the traditional ratings business but has transformed itself in recent years by investing heavily in data and analytics, which is less cyclical and has very strong margins.

Moody's posted first quarter earnings on April 25<sup>th</sup>, 2023, and results were better than expected on both revenue and earnings. Adjusted earnings-per-share came to \$2.99, which was 77 cents ahead of estimates, and 10 cents better than the year-ago period. In addition, revenue was down 3% year-over-year to \$1.47 billion, but beat estimates by \$70 million. Revenue was down 2% on a constant currency basis. Annual recurring revenue was up 10% to \$2.8 billion, led by an 11% increase in Decision Solutions.

Moody's boosted guidance to revenue growth of mid-to-high single digits, and adjusted earnings-per-share of \$9.50 to \$10.00. That is well ahead of the prior consensus estimate of \$9.32, and we've boosted our estimate accordingly to \$9.75. Free cash flow is now expected to be \$1.4 billion to \$1.6 billion, down from \$1.7 billion to \$1.9 billion prior. Moody's expects to buy back about \$250 million in shares this year, along with its dividend.

The dividend was boosted to \$3.08 on an annualized basis, the 14<sup>th</sup> consecutive year Moody's has raised its payout.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$3.60	\$4.21	\$4.60	\$4.81	\$6.07	\$7.39	\$8.29	\$10.15	\$12.29	\$8.57	<b>\$9.75</b>	<b>\$17.96</b>
<b>DPS</b>	\$0.90	\$1.12	\$1.36	\$1.48	\$1.14	\$1.76	\$2.00	\$2.24	\$2.48	\$2.80	<b>\$3.08</b>	<b>\$5.19</b>
<b>Shares<sup>2</sup></b>	214	203	196	191	191	191	187	187	186	183	<b>182</b>	<b>180</b>

Moody's earnings-per-share history is quite strong as it has seen profit growth in every year in the past decade. Moody's earnings growth has averaged 15% per year over the last decade. While we do not believe that sort of performance is sustainable in the long run, we forecast 13% earnings-per-share growth moving forward from 2023's still relatively low base.

Moody's can achieve this result by continuing its long tradition of buying growth, as we saw with the large Bureau van Dijk purchase and the smaller purchases made in the years since, as well as a smaller amount of organic revenue growth. The company's operating costs have hampered earnings growth at times in the past as growing revenue at rapid rates can be expensive, and we believe this will continue to be the case moving forward. However, longer term tailwinds are in place for Moody's as it continues to feed seemingly insatiable investor demand for real-time analytical data on a wide variety of global securities. Keep in mind the core US business is growing relatively slowly and as such, Moody's relies almost entirely upon the global business for expansion, exposing it to currency risk over time as well. In addition, the

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Moody's Corporation (MCO)

Updated May 2<sup>nd</sup>, 2023, by Josh Arnold

company continues its torrid pace of targeted acquisitions to help it grow. Higher interest rates around the world have crushed demand for debt issuances, so that is likely to be a headwind for some time.

We see the dividend as growing at roughly the same rate as earnings-per-share and we are forecasting a payout of \$5.19 in five years. Moody's has not shown the dividend to be a priority, as it is instead focused on business growth. Even so, the 2023 dividend increase was 10%.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.5	20.8	22.3	20.4	20.6	22.3	23.7	26.1	28.1	32.5	32.1	25.0
Avg. Yld.	1.4%	1.3%	1.3%	1.5%	0.9%	1.1%	1.0%	0.8%	0.7%	1.0%	1.0%	1.2%

The valuation for Moody's has moved around significantly in the past decade after hitting its lowest point in 2012 at 13.5. Today's price-to-earnings ratio of 32.1 is well ahead of our estimate of fair value at 25.0. That implies a sizable headwind from the valuation. We see the yield ticking higher over time as dividend growth could outpace that of earnings growth, but the yield should remain below the market average.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	26%	23%	29%	30%	25%	24%	24%	22%	20%	33%	32%	29%

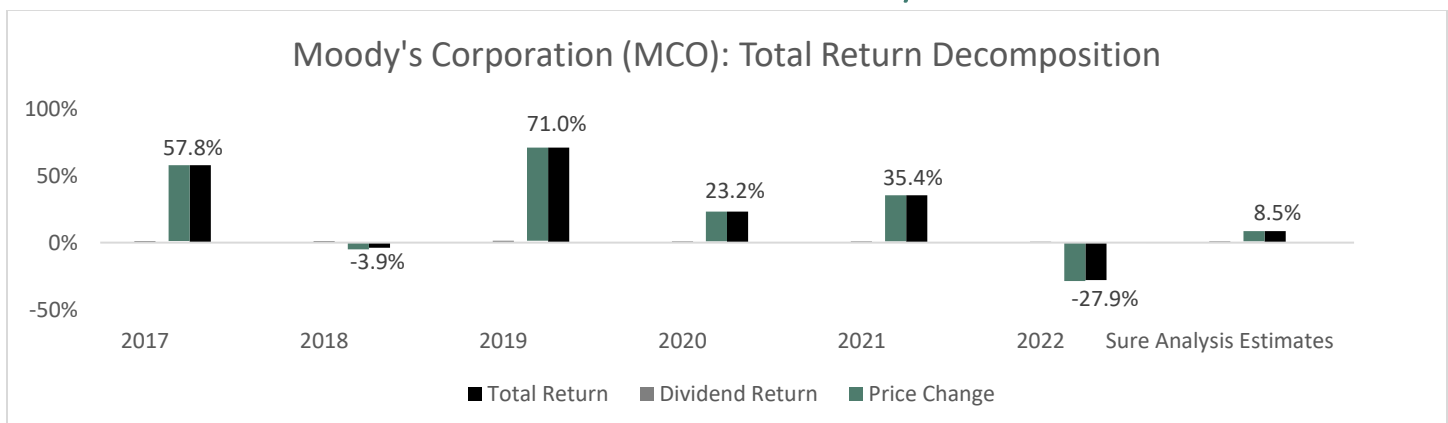
Moody's payout ratio is one-third of earnings, which is in-line with its historical norms. We do not believe that will change materially in the years to come as the company continues to grow earnings rapidly, and as it focuses on growth more than a high dividend yield.

Moody's competitive advantage is that it was the company that basically created the industry more than 100 years ago. Its recent acquisitions and internal product advancements have kept it relevant with data-hungry investors. Moody's product assortment is strong at a time when competition is tougher than ever, and we think that will serve Moody's well during future recessions, which should not crimp earnings unduly.

## Final Thoughts & Recommendation

Overall, Moody's looks like a strong growth story that is once again quite overvalued. We are forecasting 8.5% in total annual returns moving forward, consisting of the 1% current yield, 13% earnings-per-share growth and a 4.9% headwind from the valuation. Moody's looks well-positioned for further growth, and we are reiterating it at a hold rating given its valuation.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Moody's Corporation (MCO)

Updated May 2<sup>nd</sup>, 2023, by Josh Arnold

## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	2,973	3,334	3,485	3,604	4,204	4,443	4,829	5,371	6,218	5,468
<b>Gross Profit</b>	2,150	2,404	2,508	2,585	2,988	3,197	3,442	3,896	4,581	3,855
<b>Gross Margin</b>	72.3%	72.1%	72.0%	71.7%	71.1%	72.0%	71.3%	72.5%	73.7%	70.5%
<b>SG&amp;A Exp.</b>	822	869	921	931	986	1,080	1,167	1,229	1,480	1,527
<b>D&amp;A Exp.</b>	93	96	114	127	158	192	200	220	257	---
<b>Operating Profit</b>	1,254	1,446	1,480	1,528	1,844	1,925	2,075	2,447	2,844	1,997
<b>Op. Margin</b>	42.2%	43.4%	42.5%	42.4%	43.9%	43.3%	43.0%	45.6%	45.7%	36.5%
<b>Net Profit</b>	805	989	941	267	1,001	1,310	1,422	1,778	2,214	1,374
<b>Net Margin</b>	27.1%	29.7%	27.0%	7.4%	23.8%	29.5%	29.4%	33.1%	35.6%	25.1%
<b>Free Cash Flow</b>	885	944	1,109	1,144	664	1,370	1,606	2,043	1,866	1,474
<b>Income Tax</b>	353	455	430	282	779	352	381	452	541	386

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	4,395	4,669	5,103	5,327	8,594	9,526	10,265	12,409	14,680	14,349
<b>Cash &amp; Equivalents</b>	1,920	1,220	1,757	2,052	1,072	1,685	1,832	2,597	1,811	1,769
<b>Acc. Receivable</b>	694	792	802	887	1,147	1,287	1,419	1,430	1,720	1,652
<b>Goodwill &amp; Int.</b>	887	1,367	1,275	1,320	5,385	5,347	5,220	6,380	8,466	8,049
<b>Total Liabilities</b>	4,047	4,626	5,436	6,355	8,709	8,870	9,434	10,646	11,764	11,660
<b>Accounts Payable</b>	16	19	22	28	22	30	38	39	47	---
<b>Long-Term Debt</b>	2,102	2,547	3,381	3,363	5,541	5,676	5,581	6,422	7,413	7,389
<b>Total Equity</b>	337	-188	(565)	-1,225	-328	459	612	1,569	2,727	2,519
<b>LTD/E Ratio</b>	6.24	-13.56	(5.98)	-2.75-	-16.91	12.37	9.12	4.09	2.72	2.93

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	19.3%	21.8%	19.3%	5.1%	14.4%	14.5%	14.4%	15.7%	16.3%	9.5%
<b>Return on Equity</b>	222.8%	---	---	---	---	---	266%	163%	103%	52.4%
<b>ROIC</b>	35.6%	39.2%	33.4%	9.9%	25.8%	22.3%	22.3%	24.4%	23.9%	13.5%
<b>Shares Out.</b>	214	203	196	191	191	191	187	187	186	185
<b>Revenue/Share</b>	13.30	15.53	17.13	18.45	21.65	22.85	25.20	28.37	33.09	29.60
<b>FCF/Share</b>	3.96	4.40	5.45	5.85	3.42	7.05	8.38	10.79	9.93	7.98

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.